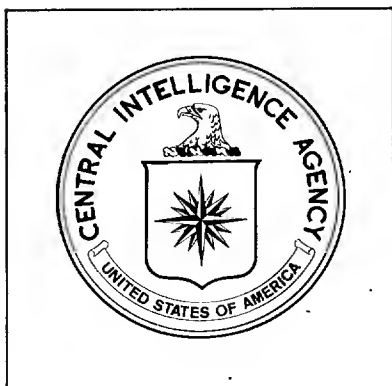


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# STAFF NOTES:

## Chinese Affairs

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149

April 1, 1975  
SC No. 00400/75

*Handle via COMINT Channels*

Approved For Release 2001/07/30 : CIA-RDP79T00865A000700010002-3  
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Exempt from general declassification schedule  
of E. O. 11652, exemption category:  
§ 5B (1), (2), and (3)  
Automatically declassified  
on: Date Impossible to Determine

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## CHINESE AFFAIRS

This publication is prepared for regional specialists in the Washington community by the East Asia - Pacific Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence and from the Directorate of Science and Technology. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Business Almost as Usual



Since the National People's Congress last January there have been several indications that Peking is conducting its affairs in almost normal fashion--i.e., similar to the way business was done prior to the Cultural Revolution. Normality is a newsworthy item in China because abnormality has generally been the norm since the mid-1960s. The newly constituted government, ratified at the congress, seems to be the most important factor in the change in operating style.

The first sign that things were returning to normal was a notice issued in early March by the State Council--China's cabinet--thanking those foreign governments that had sent messages of concern regarding a major earthquake that hit the northeast province of Liaoning in February. Foreign governments have sent such messages before, but if the State Council issued replies, they did so in secret.

In mid-March, the standing committee of the National People's Congress, which meets when the full congress is not in session, held a meeting that approved a proposal to grant amnesty to all remaining Nationalist "war criminals" still in custody. The meeting also heard a report on the economic situation by chief economic planner Yu Chui-li and received a briefing on the earthquake relief program in Liaoning. In addition, the session approved several ambassadorial appointments, many of which were actually made last year. In typically "abnormal" fashion, however, no details were released on any of these subjects except the amnesty decision.

Peking announced on March 20 that preparatory meetings have been held to plan for the national congresses of China's major mass organizations--the Communist Youth League, the women's federation, and the

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trade unions. The mass organizations were destroyed during the Cultural Revolution, but provincial-level units for the Youth League and the trade unions were established in every province by 1973. The only step needed to complete the rebuilding process for these two groups was to re-establish the organizations at the national level, but the political uncertainties of last year's anti-Confucius campaign probably forced postponement of national congresses, if indeed they were being planned. As for the women's federation, provincial-level groups have been established in all but one province. Peking's announcement did not indicate when the three congresses would be held, noting only that they would be convened "after due preparation."

The announcement made no mention of the peasants' association, another mass organization that is being rebuilt at a much slower pace. Few provinces have established peasants' associations at the provincial level. Before the Cultural Revolution, there was no national peasants' association, and it is not clear whether Peking plans to establish one. (UNCLASSIFIED)

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### Factionalism in the Militia

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The campaign to improve social order by building up the urban militia has been successful in many areas, but recent reports indicate that the campaign has had the opposite effect in Chekiang and Yunnan provinces. Factional conflict, dating from the Cultural Revolution, has continued within the rebuilt militia units.

Militia involvement in factional strife is an example of China's vexing problem of trying to balance so-called democratic rights--such as the right to strike, to put up posters, and to criticize--with the need for order and unity. Since the Cultural Revolution, the pendulum has too often swung in favor of "democracy" at the expense of production, social order, and the implementation of central policies. Continued factionalism--politically and personally motivated--has necessitated the involvement of central leaders and the continued intervention of troops. It has also tended to undermine the authority if not the will of provincial leaders.

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[REDACTED] the struggle for control over the urban militia intensified in several areas of Chekiang in mid-November. Violent clashes occurred frequently, and a number of people were killed. Warring factions reportedly stole weapons from the PLA, and the limited stock of militia weapons may have been used.

The situation was so serious that the central authorities summoned leaders from both provinces to Peking around the end of the year. Party vice chairman Wang Hung-wen reportedly emphasized to the provincial leaders that the role of the militia was to support the local party authorities and to maintain order. Factionalism was condemned.

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Wang was said to have underscored a recent order by Chairman Mao that in places with serious factional disputes, militia units should not be organized in a "hasty" manner. The militia headquarters in Hangchow, capital of Chekiang, and units in other cities in the province apparently fell into this category, because orders were issued by Peking leaders to disband them. These instructions are also said to have been passed throughout the country as part of central directives two and eight.

The party first secretary of Chekiang, Tan Chi-lung, was reportedly reluctant to carry out the orders. He may not have wanted to remove some militia leaders loyal to him, but he must also have been mindful that the decision could anger one of the factions. Tan had already been dragged out of a guesthouse by one group last month and taken to a struggle meeting--an experience he did not wish to repeat. Tan finally dissolved the militia headquarters however, after a telegram from Peking demanded action.

25X1C Still, [REDACTED] peace was not restored in Chekiang until Teng Hsião-ping sent a division of troops from the Peking Garrison in late February and made a personal visit in early March. Teng is also said to have gone to Yunnan in early February for the same purpose.

There is no guarantee that peace will be maintained. The militia in Wenchow, a coastal city in Chekiang, was praised by the provincial radio last May for preventing disturbances, but [REDACTED] indicate that factional activity resumed this year.

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Problems with the militia in Chekiang and Yunnan demonstrate that institutions such as the militia cannot in themselves create unity. Continued factionalism tends to frustrate the achievement of high-priority goals such as getting the military out of politics. For example, recent broadcasts have called

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on the regular forces to work closely with the militia. The trend in domestic propaganda last year was to emphasize that the urban militia was distinct from the regular PLA forces and operated under the direct command of civilian municipal authorities. Most reported militia leaders have been civilians. The new first deputy commander of the Canton Militia Command, formed in mid-December, however, is the Canton Garrison commander. Canton has been plagued by the economic demands of demobilized soldiers, and civilian municipal authorities apparently have turned to the garrison for help.

The reported involvement of Teng Hsiao-ping, who has a well-earned reputation as a disciplinarian, may explain this adjustment in the expressed role of the PLA. Teng was recently named chief of staff and may have decided to increase the use of troops to restore order. Previous reports indicated that Wang Hung-wen had attempted to resolve factional rivalry in several provinces, including Chekiang and Yunnan, but his success obviously has been limited.

Indeed, the persistent lack of unity doubtless helped to create the need to rehabilitate veterans such as Teng and to use the campaign to strengthen the proletarian dictatorship as a vehicle for enhancing central control and improving social order. Nevertheless, the fact that "democratic" rights are written into the constitution, have been closely associated with Chairman Mao, and are used as a political weapon by a variety of groups, will make a concerted crackdown on factionalism very difficult.

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Balance of Payments - The Ink is Red

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A record trade deficit in 1974 pushed China's balance of payments with the non-communist countries into the red for the first time since 1970. Despite a sharp increase in the use of credits and other short-term borrowing, Peking was forced to draw down its reserves of gold and foreign currency by more than \$350 million.

The value of China's imports from the non-communist world increased by about 45 percent in 1974, while exports rose by only 20 percent, generating a trade deficit of almost \$900 million (see table). Foreign currency outlays for transportation services were more than \$400 million. In addition, China made \$200 million worth of downpayments and payments for services under its whole plant import program and spent \$70 million for aid to less developed countries.

On the plus side, overseas remittances and borrowing from Chinese-controlled banks in Hong Kong brought in \$375 million. Peking received short- and medium-term credits worth \$1.2 billion in 1974 for imports of grain and whole plant equipment. Repayments of grain credits during the year, however, totaled \$800 million. Time deposits from Western banks and other financing, such as the clearing account balance with Japan, provided perhaps \$500 million.

The crunch came in the second half of 1974 as the bulk of the repayments for short-term credits fell due and the growing world recession cut demand for China's exports. Forced to sell gold to meet foreign exchange needs, the Chinese began taking additional measures to ease the foreign exchange shortage. Contracts for grain and cotton were canceled, short-term credits were

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China: Balance of Payments with the  
Non-Communist Countries  
(Million US \$)

<u>ITEM</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
<u>Current account (net)</u>	<u>310</u>	<u>-95</u>	<u>-1,260</u>
Merchandise, f.o.b.			
Exports	2,345	3,900	4,675
Imports	-2,095	-3,825	-5,545
Net transportation	-130	-245	-440
Remittances from Overseas Chinese	190	225	250
Downpayments, payments for services under whole plant import program	-	-150	-200
<u>Capital and monetary gold (net)</u>	<u>-195</u>	<u>220</u>	<u>1,305</u>
Foreign aid (net) <sup>1</sup>	-100	-70	-70
Supplier credits to China (net of repayments including interest)			
- for grain	65	305	180
- for whole plants	-	-	220
Borrowing from PRC-controlled banks, Hong Kong	75	100	125
Time deposits from Western banks, clearing account, balance with Japan	100	150	500
Monetary gold (net change) <sup>2</sup>	-75	-235	350
Foreign currency holdings (net change) <sup>3</sup>	-260	-30	-45
<u>Errors and omissions (net)</u>	<u>-115</u>	<u>-125</u>	

1. Deliveries by China in the form of commodities and foreign currency.
2. International purchases (-) and sales (+) of gold.
3. Increases in holdings (-) net of drawings (+).

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obtained for purchases of Japanese steel and fertilizer, and interest rates were raised in China's banks in Hong Kong to attract increased deposits.

Despite these problems, there is no crisis in China's balance of payments, and the situation should improve sharply this year. Reserves are adequate, and Peking's credit rating is still excellent. The import bill has been trimmed, and increased oil exports will at least compensate for the decline in other exports. Moreover, repayments on grain credits will be less than last year's. More whole plant equipment will be imported under medium-term credits, but repayment of these credits will not begin until 1976. Peking may also slow its purchase of new plants, reducing outlays for downpayments. (SECRET NO FOREIGN/CONTROLLED DISSEM)

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Soliciting Singapore

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Peking made it clear to Singapore Foreign Minister Rajaratnam during his stay in China in mid-March that the Chinese considered the visit an important step toward improving relations and that Peking saw no obstacles to the early establishment of diplomatic relations.

The Chinese apparently listened politely to Rajaratnam's explanations of Singapore's reluctance to establish diplomatic links now. Rajaratnam told the Chinese this was, at least in part, a result of "certain local impediments"--a formulation used for Singapore's sensitivities about the political loyalties of its large ethnic Chinese population.

In a statement to the press, Rajaratnam said that the Chinese, although anxious to establish diplomatic ties "as soon as possible," now understand Singapore's position and are prepared to wait for "Singapore's convenience." Both Premier Chou En-lai and Foreign Minister Chiao Kuan-hua, however, attempted to play down Singapore's fears by assuring Rajaratnam that Peking had no designs on Singapore's ethnic Chinese population.

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Rajaratnam claimed that the real obstacle for Singapore was Indonesia's concern about the presence of a Chinese mission in Singapore, which Jakarta fears might be used as a base for subversive activities against Indonesia. Rajaratnam said his government had assured the Indonesians that Singapore would await Jakarta's lead on diplomatic ties with Peking. He said that might come within a year.

Rajaratnam, who was invited to Peking last year by Foreign Minister Chiao, was the first Singapore

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government representative to visit China since Singapore became independent in 1965. The visit will enable both sides to establish direct government-to-government contacts on trade and other matters in the future. The Chinese also expressed an interest in purchasing ships from Singapore and agreed to dispatch an official economic delegation to Singapore in the near future.

More important, both sides have opened official channels of communication that will facilitate rapid movement on diplomatic relations whenever Singapore decides to make the plunge. (CONFIDENTIAL NO FOREIGN DISSEM)



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A Move Toward Dacca

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The Chinese may now be prepared to enter into direct trade with Bangladesh. This may be a prelude to establishment of diplomatic relations. [REDACTED]

25X1C [REDACTED] Chinese officials in Hong Kong early in March offered to establish trade links. The officials expressed an interest in buying jute and invited Dacca to send a five-person delegation to the coming Canton Trade Fair.

Until now China has been noncommittal toward the Bengalees on the question of trade, and this latest move undoubtedly is politically motivated. Not too long ago China claimed that it was self-sufficient in jute, and it apparently has little need for the fibre. Furthermore, when inviting the Bengalee delegation to the Canton fair, the Chinese officials strongly hinted that Peking wanted to discuss other matters besides trade.

Peking and Dacca have been talking about diplomatic ties since the UN General Assembly session last September, but the Chinese have maintained that Bangladesh must first exchange ambassadors with Pakistan before the path will be clear for Sino-Bengalee ties. Peking adopted this position at Islamabad's urging.

While the evidence is still tenuous, there may have been a recent shift in Pakistan's stand on this issue that may have prompted China to revise its own game plan. [REDACTED]

25X1X [REDACTED] Prime Minister Bhutto now no longer opposes Chinese recognition of Bangladesh and has left the timing entirely up to Peking.

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Nevertheless, Peking is still taking a cautious approach. The Chinese have specified that the Bangalee delegation to the Canton fair--although it will be composed of officials from various government ministries--should be nonofficial. The Chinese may be concerned about Bhutto again shifting ground on Sino-Bengalee relations but, more likely, they are unsure about President Mijibur Rahman's staying power. If a new government should come to power in Dacca, China will want to be able to disclaim any support for the present group of leaders. In fact, the Chinese may delay establishing diplomatic relations until they are convinced that the situation in Bangladesh has become stable. (SECRET NO FOREIGN DISSEM)

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Proposals To Restructure the Provinces

There appears to have been an important debate within the top leadership over the past several years over the best way to organize the government below the national level. Discussions seemed to intensify prior to the National People's Congress (NPC)--the body that would formally approve any such changes--but none of the proposed changes has yet been made. The debate is now muted in the domestic media, but the proposals appear to have been seriously entertained and will probably surface again.

There is sufficient evidence to describe in broad terms two basic proposals, but detail is lacking as to the specifics. One line of argument apparently favored regional units, while another plan called for increasing the number of provinces while reducing them in size. Paradoxically, these opposing views shared some of the same basic goals: strengthening the central government in the political and economic spheres and reducing the power of provincial authorities, especially the military. For the most part, however, the two proposals conflict.

reported that the idea of combining provinces into regions was under serious consideration in the summer of 1973. that the State Planning Commission was working on a new system of regions that in some instances would involve merging several provinces. added that the system would overcome "provincialism," which had been an obstacle to economic planning, and that plans were being laid to merge local party and government units into a single body.

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[REDACTED] did not mention any regional political organizations, such as the party bureaus which existed prior to the Cultural Revolution, but some sort of party oversight organization would logically accompany the establishment of regional economic organizations of the type described. Thus, the plan seemed to raise the spectre of regional power centers and perhaps regional party bureaus of some type, and it could be expected to draw opposition from those who opposed such bodies during the Cultural Revolution, quite possibly including Mao.

Discussion of the plan to increase the number of provinces, which may have been spurred by the proposal to create regions, came to the fore last year. Several sources reported that the figure of 50 provinces had been proposed. In addition, a number of articles appeared in the domestic media supporting the proposal. Arguing by the use of historic example, several articles described how the first Chin emperor undercut the power of the feudal princes by basing provincial administration on a revised system of "prefectures." The modern day equivalent of princes would be regional military commanders and provincial leaders.

One article, which appeared in the November 1974 issue of the Shanghai journal *Study and Criticism*, referred to the proposal of a much praised legalist "to divide the vassal states into smaller fiefs to be granted to the descendants of the princes to curb their powers." The article noted that the proposal was not put into effect and the princes, although appointed by the ruler and thought to be extremely loyal to him, eventually became more committed to expanding their own power and prerogatives and overthrew the dynasty.

This line of argument is strikingly similar to the theoretical underpinning of the current campaign

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to strengthen the proletarian dictatorship--the main danger of capitalist restoration comes from forces within the socialist society rather than class enemies, foreign or domestic, and precautions must be taken to prevent these potentially revisionist buds from blooming. The campaign is being carried on in Mao's name and features the chairman's repetition of quotations from Marx which endorse this reasoning. The logic, moreover, parallels the theme of several Lo Szu-ting articles that seemed to call for the elimination of the threat posed by military political power on similar grounds. Whatever his current position, Mao may well have supported the proposal to increase the number of provinces last year as a means to break the power of provincial military men. If so, this is another instance of Mao not getting his way (see annex).

The preferences of other key leaders are more difficult to fix, although civilian moderates would probably tend to support the idea of creating regional authorities to strengthen economic planning and balance military region chiefs and would probably be mindful of the threat to central government control posed by a proliferation of provinces. The issues are by no means this clear-cut, however, and the battle lines certainly not as easily drawn. Regional organizations, for example, could be rivals to the central government much as the military regions seem to have become. Moreover, [REDACTED] who reported that under the regime's ten year economic plan economic regions would be established as well as the number of provinces increased, may be reflecting a compromise proposal.

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Whether or not these proposals came close to being adopted, the existence of provinces and revolutionary committees was written into the government constitution adopted by the National People's Congress

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in January. Nonetheless, the debate over the organization question may have contributed to the long delay in convening the congress. Furthermore, one or more of the issues will probably be revived soon. In February, for example, Peking changed the English translation of the Chinese term for the governmental level between the province and the county from "special district" to "prefecture." This may mean nothing, but since prefecture is the same term used in the historical articles, it leaves open the possibility that a new drive will be launched to abolish or reconfigure the provinces.  
(SECRET NO FOREIGN DISSEM/NO DISSEM ABROAD/BACKGROUND USE ONLY/CONTROLLED DISSEM)

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Chinese Step Up Port Improvements  
[REDACTED]

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Recent improvements to Chinese ports may have added over 45 million tons of cargo-handling capacity, largely eliminating significant congestion. During 1973 China invested twice as much in nine major ports as it had the year before. Investment probably increased further in 1974. Construction included addition of over 12 berths, mechanization of loading and unloading points, dredging of harbors, and railroad trackage and roads to improve access. At least 80 percent of China's foreign trade moves by sea.

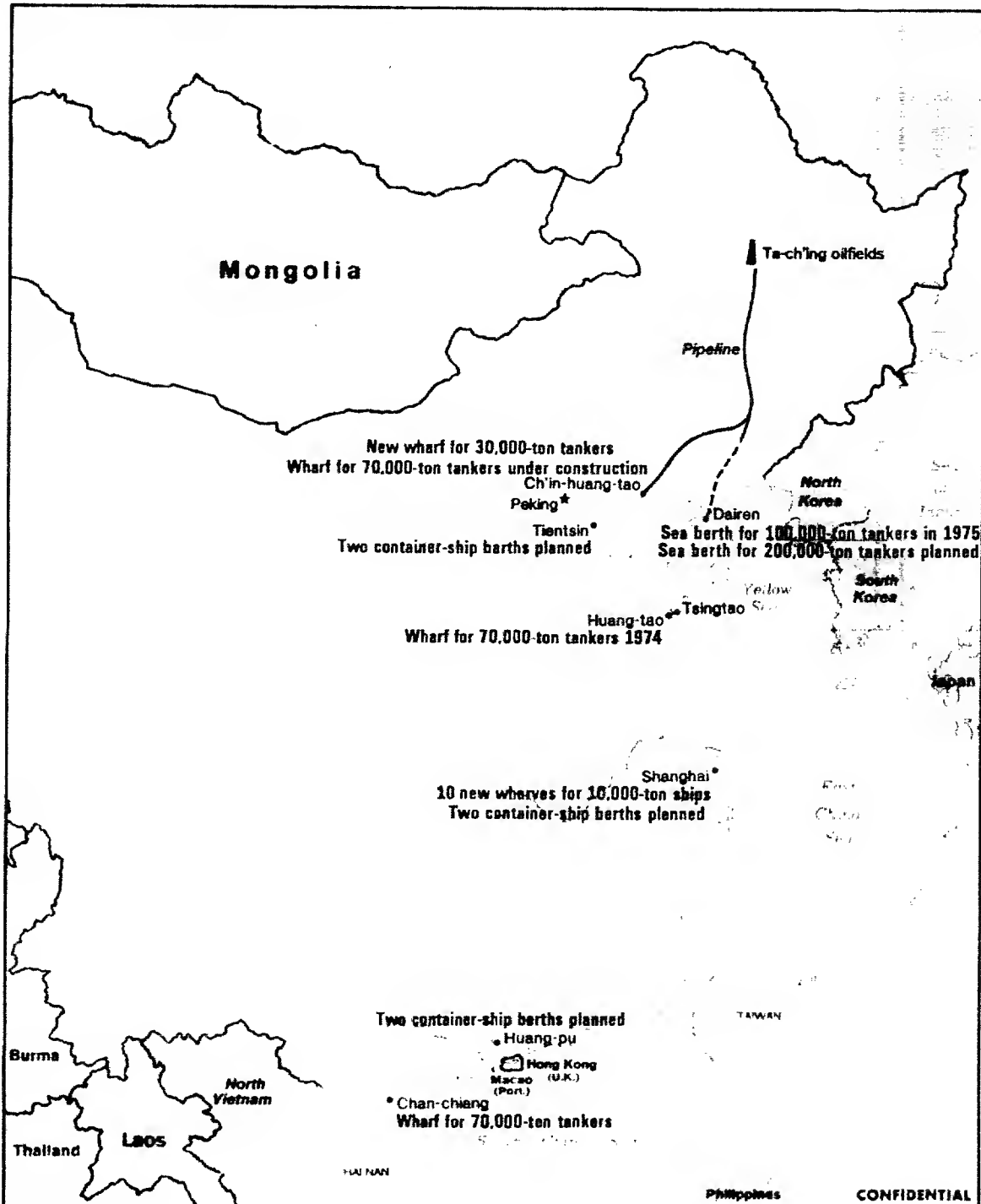
Although all ports were improved, Peking emphasized those involved in handling petroleum shipments--Ch'in-huang-tao, Dairen, Huang-tao, and Chan-chiang. Ch'in-huang-tao, at the end of the pipeline from the giant Ta-ch'ing oil fields, now has a new oil wharf accommodating 30,000-ton tankers and is readying another to take 70,000-ton tankers. Dairen's port, which can handle tankers of up to 50,000 tons and has berths for four 10,000-ton class ships, will add a sea berth for 100,000-ton tankers in 1975, and one for 200,000-ton tankers later. Dairen will be fed by a pipeline from Ta-ch'ing that is nearing completion.

At Huang-tao, a new oil port near Tsingtao, a recently completed oil wharf probably will be able to accommodate 70,000-ton tankers. And the

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## China Increases Port Facilities



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port of Chan-chiang, in south China, was expanded last year and can also take 70,000-ton tankers.

Ten new wharves for 10,000-ton ships were added to China's largest port, Shanghai. The Chinese also plan to build six container-ship berths: two each at Tientsin, Shanghai, and Huang-pu. (CONFIDENTIAL)



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#### CHRONOLOGY

- March 11      China-Poland trade agreement for 1975 signed in Warsaw by Vice Foreign Trade Minister Chen Chieh. (U)
- March 14      China and Guyana sign economic and technical cooperation agreement. (U)
- March 15      Chinese delegation to the Law of the Sea Conference departs China for Geneva. (U)
- Delegation from Sri Lanka, led by the Prime Minister's son, arrives in China. (U)
- Moroccan delegation, headed by the foreign minister, arrives in Peking. (U)
- March 17      Soviet broadcast says Moscow recently made another request that the Chinese release Soviet helicopter crewmen captured in March 1974. (U)
- March 17-18    NPC Standing Committee meets, grants amnesty to all remaining Nationalist "war criminals," hears reports of 1975 economic plan and Liaoning earthquake relief program, and approves ambassadorial appointments. (U)
- March 19      Chinese turn down Mongolian request to lay wreaths at monument for Mongolian soldiers in Manchuria. (U)
- Delegation of North Korean *Nodong Sinmum* officials meets with Politburo member Yao Wen-yuan in Peking. (U)

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March 20        Peking announces preparatory meetings have been held for the national congresses of the Young Communist League, the Women's Federation, and the Trade Unions. (U)

March 21        Singapore Foreign Minister Rajaratnam concludes official visit to China. (U)

March 21-26     Philippine oil delegation visits Peking to negotiate future purchases of Chinese petroleum products. (U)

March 24        Tsinghai Province makes first reference since Cultural Revolution to province-level People's Court. (U)

March 27        Chinese vice premier and Politburo member Chen Yung-kuei, as head of delegation, departs Peking for visit to Mexico. (U)

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